

# Performance and Accountability Report



*Fiscal Year 2003*



## FOREWORD

**T**his Fiscal Year 2003 Performance and Accountability Report (PAR) is the Small Business Administration's (SBA) third such report and is authorized by the Reports Consolidation Act of 2000. The purpose of the Act is to streamline and consolidate certain statutory financial management and performance reports into a single accountability document.

Our PAR includes the reporting requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, the Government Performance and Results Act of 1993, the Debt Collection Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982 and the Management Report of Final Action on the Office of Inspector General audit recommendations. It presents the Small Business Administration's Consolidated Financial Statements and Independent Public Accountant's Opinion of the statements, internal controls and compliance with laws and regulations.

The FY 2003 report is available at  
***<http://www.sba.gov/PAR.pdf>***

SBA's FY 2003 – FY 2008 Strategic Plan is available at:  
***<http://www.sba.gov/strategic/strategicplan2003pdf>***

The FY 2004 Annual Performance Plan can be located at:  
***<http://www.sba.gov/aboutsba/2004/fy2004budget.pdf>***

Information about SBA's programs: ***<http://www.sba.gov/>***

Para informacion acerca de los programas de SBA: ***<http://www.negocios.gov>***

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to:

***[performancereports@sba.gov](mailto:performancereports@sba.gov)***

or, you may write to:

Small Business Administration  
Office of the Chief Financial Officer  
409 Third Street, S.W.  
Suite 6000  
Washington, DC 20416



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# MESSAGE FROM THE ADMINISTRATOR

January 30, 2004



**Hector V. Barreto**  
SBA Administrator

Every year, the U.S. Small Business Administration publishes a Performance and Accountability Report. Available to the general public along with the Congress and the small business community, this annual report provides information on the previous year's accomplishments and operations, including detailed accounting of costs. I believe that openness and transparency in government are a vital part of our democracy, and so I am very pleased to present the SBA Performance and Accountability Report for Fiscal Year 2003.

Fiscal Year 2003 was a strong year for the SBA and for America's small business owners. The Agency turned 50 in 2003. That is quite a milestone: for half a century, the SBA has been the American entrepreneur's principal advocate in the United States government. During that time we have provided assistance to millions of small businesses. From creating access to essential capital to providing professional expert advice, from working to make government contracts more accessible to acting as America's bank in the wake of widespread natural disasters, the SBA has spent 50 years helping to create an environment of success for American small businesses, allowing them to do what they do best.

Though our work is never done and we will never stop trying to do more, the SBA can look back at 2003 as a good year for our clients, American small business owners. The American economic recovery has strengthened and broadened. Growth is strong and our economy is creating jobs at a steady pace. Small business has been at the forefront of our strong recovery, and small business owners tell us they are feeling even more confident about the future.

The ingenuity and efficiency of American entrepreneurs is unmatched, and compared to their efforts, the federal government's share in their success is only a small one. However, we at the SBA are proud of what we have accomplished in 2003. We were not the main reason small businesses succeeded, but we were their enthusiastic partner, and we are proud to have been able to offer that crucial hand up when needed. The SBA approved a record number of loans in 2003, reaching out to more small businesses than ever before. And among our record-breaking 76,000 loans were huge increases in assistance to minority and women owned businesses.

2003 also marked the creation of a new and revolutionary way of helping small business owners compete for government contracts. Business Matchmaking is a series of unique contracting events held across the country. The events, representing a new and exciting approach to contracting, are continuing in 2004. The SBA continued to modernize its services in 2003, including completely redesigning its Web site and creating a brand new Spanish-language Internet portal, <http://www.negocios.gov>.

In our opinion, over the past year, SBA successfully resolved all of the major issues that were identified by the independent auditor in its "disclaimed" audit opinion for FY 2002. The most significant issue identified last year involved the sale of loan assets from fiscal year 1999 to December, 2003. A thorough review of the asset sale results has now revealed that additional financial analysis should have been completed before the program was implemented because it is now clear that this approach was not cost effective for the taxpayer. Unfortunately,

despite the resolution of the key issues from last year's audit, the independent auditor has again issued a "disclaimer" on SBA's financial statements. The primary reason for the disclaimed opinion this year was that SBA was late in completing its work and did not leave sufficient time for the auditor to conduct its testing and reviews. While we accept this result and agree that further improvements are necessary, we believe the disclaimer is more a reflection of the timing constraints of the audit than a meaningful representation of the quality of the Agency's final financial statements.

The SBA has continued its efforts to strengthen its internal control program and we are working toward compliance with the requirements of the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act. My internal control assurance statement for FY 2003 in this report has a "qualification" due to the issues raised by the independent auditor this year. Because of the work already completed to address these issues, I am confident that I will be able to provide a positive internal control assurance for FY 2004.

The SBA's performance objectives have been aligned to support the President's Small Business Agenda and the management of Federal resources. The Agency's performance indicators are designed to measure outcomes for its clients, as well as measure key program outputs. The performance data for programs is improving, however SBA still faces data quality challenges. We are working to improve the completeness and reliability of the performance data for credit and procurement programs and advice provided to small business through the SBA's resource partners. Surveys used are inconsistent and not comparable, and client responses are often difficult to obtain. Because of this, ensuring the validity and reliability of data has been difficult and we are working to improve survey instruments used. The management controls section of this report provides additional information on data validation and verification.

In addition to these financial management and performance data issues, several other major management challenges face SBA over the coming year. One is to improve the agency's managing for results processes. This past year, SBA drafted a new strategic plan that goes much further than previous efforts in identifying our programs' intended outcomes, including the impact on the small business community and the results for the taxpayers, and in describing specific strategies for success. As SBA manages to this plan, it will be more effective in servicing the needs of its constituencies. Another major management challenge is to fully develop and implement SBA's human capital management strategy. This will be a key factor in maximizing program performance. For example, a pilot study was conducted this past year in three district offices to move their loan processing and servicing operations to a service center thus enabling staff to conduct extensive marketing and outreach activities. This resulted in very positive improvements in program performance, and serves as a model for further streamlining and centralizing efforts.

The various sections of this document contain specific reports on SBA program performance, financial management, and management challenges covering FY 2003. To ensure that this PAR is a truly integrated document, rather than simply a collection of individual reports on particular aspects of SBA operations, the Management's Discussion & Analysis (MD&A) section has been designed to offer an overall framework for this integration. The MD&A is organized primarily around each of the strategic goals and long-term objectives of the Agency's Strategic Plan. Within this structure, important aspects of each of the other sections that relate to SBA's ability to achieve a particular goal or objective is summarized and/or cross-referenced. This results-oriented presentation of the MD&A is intended to bring greater transparency to the interrelationship between each goal or objective and the key issues of program and financial performance and the major management challenges that affect accountability and success.

It is my privilege to serve the American public as the SBA Administrator. I invite you to visit the Internet website ([www.sba.gov](http://www.sba.gov)) for more information about the SBA and its programs.

Sincerely,



Hector V. Barreto  
Administrator